

Nigerian Society of Chemical Engineers

(A Division of NSE)

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1st^{of} June, 2026

Review of the Presentation to the Presidency of the Ajaokuta Steel Project

1. Introduction

The Policy Advisory Committee of the Nigerian Society of Chemical Engineering (NSChE) has reviewed a presentation made to the Presidency by the Ajaokuta Steel Company entitled, “Ajaokuta Steel Plant – A Rapid Assessment”.

The report states a case for Ajaokuta by stressing the importance of steel for industrial development and it believes Ajaokuta can be a thriving hub of the steel industry for Nigeria and West Africa. It states that Ajaokuta has been assessed and found to have potential by the African Development Bank (AfDB), the United Nations Industrial Development Organisation (UNIDO), the National Agency for Science and Engineering Infrastructure (NASeni), and the Nigerian Academy of Engineering.

2. The Ajaokuta Steel Company Assessment

The report claims that Ajaokuta is a strategic location, with resource availability and a growing local demand that enables it to match or surpass similar plants in India, Brazil and South Africa. However, it acknowledges the need for external infrastructure including rail connections, port facilities and the developed raw material mines. It notes that the plant, as a whole, is incomplete but some parts of it have seen sporadic operation. It gives a figure of 83% operational readiness.

The report proposes the establishment of a Presidential Council, chaired by the Vice President for the governance of the project and suggests the formation of a technical advisory team of UNIDO, AfDB and other technical partners and granting of fiscal incentives.

Three different privatisation models are considered:

- a) Stakeholder-centric privatisation model – Equity would be Government (40%), Other Investors (40%) and Nigerian Public (20%); Government to have permanent control over strategic decisions
- b) Phased operational concession, with technology transfer; Government to retain golden share, allowing it to control strategic decisions
- c) Modular privatisation and integration mode – Each unit to be privatised separately with private ownership increasing progressively based on performance and market conditions.

It advocates the prioritisation of projects that can be implemented quickly and provide good returns, namely:

- i) Light Section Mill, initially using imported billets (162.05% IRR over a 10-year period)
- ii) Wire Rod Mill, initially using imported billets (96% IRR over a 10-year period)
- iii) Lime Calcination Plant, using local limestone (99% IRR over a 10-year period)
- iv) Thermal Power Plant and Turbo Blower Station, using natural gas for internal needs and external power sales (505% IRR over a 10-year period).

The report acknowledges the existence of several competitors in the local steel industry and notes that they are hampered by high production costs.

3. Observations

- i) The claim that steel is important for national industrial development is valid; Nigeria needs a robust steel industry
- ii) The facilities at Ajaokuta were constructed and installed in the 1980s and early 1990s. Even the equipment that was utilised for a time is unlikely still to be serviceable. The report acknowledges that the existing steel plants with modern equipment have a problem of high production costs and have difficulty in being competitive. The existing facilities in Ajaokuta, if they can be put back into operation, will be less efficient because they are outdated technology.
- iii) The rates of return projected for the early projects that are proposed are unrealistic. The international steel business is very competitive and does not achieve high rates of return. Ajaokuta has complex logistics and high costs and the equipment is comparatively inefficient. In particular, an IRR of 505% over a 10-year period is projected for the thermal power plant and turbo blower station, using natural gas and with external power sales. In addition to over-estimating inherent profitability, it must be making wrong assumptions on the availability and cost of natural gas.
- iv) There is no indication of when the plant will produce its own steel billets. The timetable will be dependent on the development of iron ore mines and of materials delivery and evacuation logistics.
- v) Metallurgical coal will have to be imported for the blast furnace (the existing private steel smelters use direct reduction with natural gas).
- vi) Delta Steel Company in Ovwian/Aladja, which has been privatised and is now Premium Steel and Mines Limited is a direct reduction plant (DRI) and operated for a time in the 1980s. It has difficulties and government is exploring options of reviving it. There are private steel making and processing plants but, as the study notes, they have high operating costs.

- vii) All the privatisation models proposed envisage permanent direct government control of strategic decisions. Private organisations will not invest if government is able to interfere in the running of their business.

4. Recommendations

- i) Large expenditures have been committed to Ajaokuta over the years. Government should explore ways for developing the location for steel smelting and/or processing at the location; the existing infrastructure, civil structures and buildings should, where possible be put to use along with equipment that can still be used economically.
- ii) Interested investors with technical expertise and capital should be invited to evaluate the facilities and express interest in acquiring different sections of the plant, or the entire facility if they can make an acceptable offer.
- iii) The development of the national steel industry should be with private capital and without significant government funding
- iv) Government should provide an attractive fiscal and regulatory regime for the industry and a favourable environment for it to operate.
- v) Government control of the industry should be through a standard regulatory process and not by retaining control of the decision processes of individual companies through means such as golden shares.
- vi) Government should also encourage private investment in the development of iron ore mines. It is noteworthy that a private iron ore mine is already operational in Kaduna State.
- vii) There are allegations of environmental pollution from the iron ore mine. Therefore, measures should be taken to ensure that international environmental standards are met in all aspects of the iron and steel industry.
- viii) The national steel policy must be comprehensive, with the objective of making the best possible use of the facilities and Ajaokuta and Ovwian/Aladja and also take into account the various private initiatives and enterprises. The potential of the rolling mills constructed by government should also be reassessed.
- ix) It is imperative that Nigeria develop a local steel industry, which must be efficient and sustainable. A concerted effort must be made towards achieving this objective.